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1. This report will provide tentative results of the financial operations of the Merchant and River Transport Systems in the year 1951.

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Following should be noted in general terms: Revenues and capital accumulations from state enterprises are the main source of revenue for the State Budget of the Soviet Union. This revenue is made up of turn-over taxes (main source of revenue) and assignment of profits from enterprises. From merchant and river transport organizations and enterprises, revenues for the state budget are derived only in the form of assignments from profits. The rates of profit made by the enterprises are predominately determined by fulfilment of the plan governing the volume of production and reduction of its net cost. Profit is one of the basic indices of financial results of the thrifty activity of an enterprise. The profits made by a state enterprise, as well as the turn-over tax, belong to the state since the enterprises themselves are state property. However, in order to strengthen the economic accounting, a special department for the distribution of profits has been established. The entire profit is not turned over to the state budget, only a part of it is. The greatest percentage of the profit is used within the same branch of economy in order to finance capital investments and for the accretion of internal operational funds. Thereby a stimulus is given for strengthening the economic set-up.

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S E C R E T

25X1A

2

2. However, the profit obtained as a result of thrifty operations of an enterprise does not always fall in line with the contemplated state plan for capital investments in the given enterprise or branch of industry. As a result it happens that the profit of some enterprises exceeds their planned requirements in expenditures while of others the opposite is true, i.e., profit is less than these requirements. For this reason part of the profit is withdrawn from some enterprises and transferred over the budget to other enterprises. Newly established enterprises are in no position to realize their production and consequently they have no income themselves. When they receive funds for capital investments from the General State Fund, redistribution of national revenue is taken care of in a proper manner. Exactly the same holds true when a plan providing for a considerably large volume of production output is established for an enterprise and when this enterprise, due to this plan, is in need of additional internal operational funds. In these cases, where internal funds are insufficient, operational funds are provided from centralized resources.
3. Amounts assigned from profits are determined on the basis of planned requirements of the enterprise in capital expenditures and internal operating funds, and also on the establishment of a director's fund for the construction of housing and the provision for cultural every-day needs of the workers and employees in enterprises and transport.
4. A government decree issued in 1950 completely abolished the system of state subsidies, in other words, from this year on enterprises were compelled to operate on a full self-repayment basis only (expenditures were not allowed to exceed revenues).
5. Consequently, merchant and river transport must now (the same as other branches of the national economy):
  - (A) Operate on the basis of full self-repayment, i.e., without state subsidies;
  - (B) Comply with the state task which calls for revenues to exceed expenditures (to have the anticipated (plan) profit);
  - (C) Transfer part of the profit to the state budget, which part is fixed by the plan;
  - (D) Strive for attainment of over-and-above-plan profit (over-and-above-plan capital accumulations). However, profit made over-and-above-plan must be transferred to the state budget in toto, with the exception of a very small part of the director's fund, which was set up for this purpose.
6. The government may withdraw for the benefit of the state budget not only that part of the profit which was scheduled for transfer by the plan, but also any part of the profit in excess of that scheduled to be transferred may be withdrawn for the benefit of the state budget as well.
7. The planning and financing of merchant and river transport operations (as well as of other branches of the economy) follows two lines which are closely related to each other and to the over-all economic plan. They are:
  - (A) The line of the state budget (budget plan); primarily financial allotments for replenishment and setting-up of basic means, for instance, (funds for the construction of new vessels, harbors and plants) and to supplement the working capital if this is required for an increase in the production task.
  - (B) The line of capital accumulations made by the given branch of the economy; the financing of basic capital outlay and the allotment of working funds.

S E C R E T

S E C R E T

-3-

25X1A

8. Financing of and control over productive-financial activity proceeds according to directives of the USSR State Bank and of special banks, for instance, Industrial Bank (PROMBANK) (Promyshlennyy bank).
9. The USSR State Bank is the only bank giving short-term credits to production and it is the paying and receiving center of the economy. In the area of credit, pay-and receiving-operations, the USSR State Bank (GOSBANK SSSR Gosudarstvennyy Bank SSSR) operates closely with all enterprises. There are approximately 5,000 branches of the USSR State Bank in the USSR.
10. The Industrial Bank (PROMBANK) is a long-term credit bank (investments). It provides for financing of capital construction in the transport industry against the state budget and against internal funds held by economic organizations.
11. The banks enjoy every extensive prerogatives; they are in control of the entire economic-financial activity of enterprises; they can impose financial sanctions in the event managers of enterprises interfere with the normal productive and financial activity of their enterprises.
12. The entire productive-financial activity of enterprises is in the hands of the state. Managers of enterprises may not arbitrarily manage funds, not even those derived from over-and-above plan capital accumulations. They are not authorized to cover losses in one item of expenditures by charging them to other items even if by doing so money could be saved (switch funds from the account of one item to another). Responsibility for losses evolves upon the manager but savings are transferred to the state budget.
13. The manager may not arbitrarily dispose of his own resources (those profit residues which were left over after transfer of the principal amount of the profit). The manager is not even authorized to arbitrarily draw from the director's fund. Such an expenditure must be approved by the higher level organization and by the State Bank.
14. Everything stated above is valid for both the Merchant and River Transport Systems.
15. Tentative data on the financial activity of the Merchant Fleet System are as follows:

The Merchant Fleet System.

(A) EXPENDITURES. (In billion rubles - bn rubles)

(1) Basic operational expenses, directly connected with maintenance of the fleet:

(a) Basic and supplementary wage bill for ship board personnel, mess room funds, all added to wage bill-0.8 billion rubles		
(b) Fuel, lubricating and cleaning material .....	0.72	" "
(c) Repair (current and average) .....	0.7	" "
(d) Ship supply .....	0.16	" "
(e) Amortization .....	0.25	" "
(f) Ship fees and other navigational expenses .....	0.38	" "
(g) General, administrative/management expenses training of cadres .....	0.19	" "

Total basic operational expenses.....3.2 billion rubles

S E C R E T

S E C R E T

25X1A

-4-

- (2) Additional operational expenses (militarized protection, sea lanes, harbors, Register etc..... 3.0 billion rubles
- (3) Capital expenditures (capital outlay, reestablishment and replenishment of basic funds). These are allocated without being included in the cost of shipping (grants)..... 2.7 " "
- Of this figure: charged to State Budget..... 1.9 " "
- charged to capital accumulations of enterprises..... 0.8 " "
- (4) Other expenditures, mainly budget expenditures, not included in the cost of shipping (maintenance of schools, scientific institutions etc..... 0.5 " "

Total of expenditures, which are covered by revenues....6.2 billion rubles

Total of expenditures not covered by revenues.....3.2 billion rubles

(B) REVENUES (In billion Rubles)

- (1) Freight charges for shipment of cargo (unit equal to shipping cost one ton of cargo for a distance of one mile) ..... 7.7 billion rubles

(2) Other revenues ..... 0.3 " "

(C) PROFIT ..... 1.8 " "

From this amount: (a) Planned profit ..... 1.5 " "

(b) Over-and-above-plan profit, 0.3 " "

(D) OVER-AND-ABOVE-PLAN LOSSES AND WASTE ..... 0.3 " "

(E) PROFIT MINUS LOSSES ..... 1.4 " "

(F) SUBJECT TO WITHDRAWAL INTO STATE BUDGET:

(a) From planned profit ..... 0.9 " "

(b) Total over-and-above plan profit ..... 0.3 " "

Total amount withdrawn into state budget.....1.2 billion rubles

(G) RESIDUE OF PROFIT

(a) according to plan ..... 0.6 billion rubles

(b) In reality ..... 0.2 " "

(H) FINANCIAL STATUS ..... 1.4 billion rubles

16. These figures representing the financial results of Merchant Fleet System operations (not considering the Main Administration of the Northern Merchant Shipping Lanes) are tentative figures, but since they are assembled on the basis of experience gained on my former job as an executive in the Merchant Fleet System, they may be accepted as the sum of greatest possible accuracy. Besides, I have taken into consideration the following facts while establishing these figures:

- (A) In the year 1950 the national economy of the country (industry and transport together) registered a profit of 70.4 billion rubles. From this amount the sum of 40.4 billion rubles was drawn into the State Budget and the sum of 30.3 billion rubles was left to the enterprises.

S E C R E T

S E C R E T

25X1A

-5-

- (B) In 1951 the national economy of the country registered a profit of about 75 billion rubles, from which amount about 60% was drawn into the State Budget.
- (C) From 60% to 70% of the total profit is usually transferred to the State Budget from organizations of the merchant fleet.
- (D) For the years 1949 to 1951 inclusive, merchant fleet organizations produced from 2 to 2.5% of the total profit made by the entire economy of the country (enterprises and transport).
- (E) In the year 1950 the amount of 157.4 billion rubles was earmarked by the State Budget for the national economy of the country.
- (F) In the year 1951 the amount of 178.5 billion rubles was earmarked by the State Budget for the national economy of the country. Of this total 98 billion rubles were earmarked for capital construction and 80.5 billion rubles for the replenishment of working capital. In addition, 34 billion rubles were earmarked for capital construction to be charged to internal resources of branches of the national economy.
- (G) The allocation quota established by the State Budget for merchant fleet organizations for the years 1950 and 1951 consisted of:
- (1) For capital construction ..... 1.8% - 2%
  - (2) For replenishment of working capital ..... 1.0% - 1.5%
- 25X1 (H) [ ] the State Budget's allocation quota for the merchant fleet for the years of 1953 and 1954 was raised considerably due to the extensive program providing for construction of new vessels as well as the large volume of work on reconstruction of harbors and industrial enterprises. It is likely that the allocations will amount to not less than 5%-6% of the total allocations for the national economy and that they will amount to from 6-7 billion rubles.
- (I) The following publications were used as reference in the compilation of this report:
- (1) "Morskoy Flot" journal from the years 1949-1951
  - (2) "Morskoy Flot" newspapers from 1952 and 1953
  - (3) "Rechnoy Transport" newspapers from 1952
  - (4) "Vodnyy Transport" newspapers from 1953
  - (5) "Pravda" and "Izvestiya" newspapers from 1952 and 1953
  - (6) "Izvestiya" newspaper No 272 from 1952.

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S E C R E T

25X1